



Newsletter

APRIL 2002

Join us on the "WEB" at: www.kentuckydcp.com or
www.state.ky.us/agencies/personnel/dcomp.htm
or email us at: persdeferredcomp@mail.state.ky.us
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(800) 542-2667
Fax number: (502) 573-4494
Nationwide® Retirement Solutions (NRS)
Web-Site Help Center: (800) 653-4632
Our address:
2501 Georgetown Road, Suite 1
Frankfort, Kentucky 40601-8862

Changes Made to Investment Options

Following their annual fund review, conducted by Nationwide Investment Services Corporation (the Board's investment consultant), an affiliate of Nationwide Retirement Solutions, on February 13, 2002, the Kentucky Public Employees' Deferred Compensation Authority's Board of Trustees (Board) voted to take the following actions:

Additional Funds:

Effective **April 19, 2002** the following funds will be added to the Kentucky *Spectrum of Investment Options*:

- Vanguard Mid-Cap Stock Index Fund (Admiral Shares)
- American Century Small-Cap Value Fund (Investor Class)
- Dreyfus Small-Cap Index Fund
- Brown Capital Management Inc. Small Company Fund (Institutional Class)
- Templeton Foreign Fund (Class A)

Additional information on these new funds can be found on pages 3 and 4 of this Newsletter.

Deleted Funds:

Effective 4:00 p.m. (Eastern Time) May 31, 2002 the following funds will be closed.

- Gartmore Total Return Fund Class D *Default* fund-Vanguard Institutional Index Fund
- T. Rowe Price International Stock Fund *Default* fund-Putnam International Growth Fund (Class A)

Participants currently invested in or deferring to one or both of the funds being

closed will be notified in writing of the fund closures and given ample opportunity to make a fund change prior to the closure date, via a reallocation form. Changes can also be made by using:

- **SAVER** at 1-800-793-4401
- our Web-site at www.kentuckydcp.com
- or by calling the **Authority** at 1-800-542-2667.

If **no action is taken**, any balance left in one of the funds to be closed will be transferred to the default fund (as indicated above) at 4:00 p.m. (Eastern Time) on May 31, 2002. Future deferrals that have not been changed by 4:00 p.m. on May 31, 2002 will be handled using the same default process.

If you have any questions regarding the actions of the Board, or would like a fund fact sheet and/or prospectus, please contact the Authority office.

Additional information on these new funds can be found on pages 3 and 4 of this Newsletter.



It's not too late to maximize your deferrals!

Just a reminder that under the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001, participants may now defer up to \$11,000 in their 401(k) Plan for 2002 and they may also defer up to \$11,000 in their 457 Plan. This means you have the opportunity to defer as much as \$22,000 in 2002. Participants age 50 and older, may defer an additional \$1,000 into each plan for a total of \$24,000 for the year.

If you are not already contributing the maximum deferral, it's not too late. There is still ample time to adjust your deferrals to bring your contributions up to the maximum allowable amount for 2002. To take advantage of the new maximum just call our office and ask to speak with one of our Marketing Representatives. They will be glad to assist you in making the appropriate increase to your deferrals. Phone toll-free 1-800-542-2667.



Fixed Contract Fund Rate

A blended net crediting rate that will yield 5.25% will be credited for the Second Quarter of 2002. The rate was 5.50% for the previous quarter.

Look Before You Leap!

Think Twice Before Moving Your 457 Into An IRA

New flexibility for pension fund rollovers has spurred interest in people who want to sell you on moving your retirement assets into an Individual Retirement Account (IRA). Such a move may **not** be in your best interest; in fact, it may be a costly choice.

Before making any decision, consider the advantages of your Kentucky Deferred Compensation 457 plan.

Seven key benefits of your 457 plan

1. **Access to 457 retirement assets prior to age 59½ without penalty.** Access to IRA assets prior to age 59½ may come with significant penalties. This is not true for 457 plans.

2. **Independent fund oversight** through the Authority Board of Trustees and our Investment Consultant, Nationwide Investment Services Corporation.

3. **Competitive fees.** Our fees are among the lowest public plan fees in the country. As a public plan, unlike an insurance company or bank, it is not our intent to

make a profit. Therefore, our fees will almost always be lower than a traditional, for profit IRA provider.

4. **Higher deferral limits.** In 2002, you may contribute up to \$11,000 to your 457 account, and this maximum limit will increase each year for the next four years. There are also additional 457 “catch-up” deferrals that may be available to you.

5. **Several payout options**, including partial lump sums, are available and designed to meet your needs and provide flexibility in your distributions.

6. **Administration by Kentucky State Government.** Our employees have your best interests at heart and our Plans have repeatedly won national awards for excellence.

7. **Access to unbiased, salaried representatives** whose only interest is helping you achieve your goals for retirement. All our Payout Counselors are employees of Kentucky State Government.

Look to the Deferred Compensation Authority for Retirement Solutions

If you would like to discuss how your choices might affect your plans for retirement, contact one of our Plan Service Representatives. In fact, if you decide an IRA is best for you, we can help you with much of the appropriate paperwork.

To speak with a knowledgeable Plan Service Representative, call toll-free at **1-800-542-2667** Monday – Friday, 8 a.m. – 5 p.m. EST.



Learning the Deferred Comp

Do you know the difference between an Exchange and an Option Change? These are terms that are used every day at the Deferred Compensation Authority but sometimes we forget that our Participants don’t “speak the same language.” Here is a little lesson in Deferred Comp Lingo that may prove beneficial.

Exchange – an Exchange means you are selling shares, and actually moving money already in your account from one fund to another. For example: you might move 100% of your Gartmore account to the Fixed Contract Fund. This would be an Exchange. When making an exchange, you may move a percentage of the fund, or you may move an actual dollar amount in that fund to another available fund. **If you make an exchange, this does not change your future deferrals.** It only moves money already on account.

Option Change – An Option Change takes place when you redirect where your future deferral dollars will go. For example: If you elect to make an option change, you could change the fund(s) into which your future deferrals will go, you could change the percentage of your deferral dollars going to each fund, or you might change the plan (401K or 457) into which you are deferring. **An Option Change only changes your future deferrals.**

Lingo

Let’s take a look at how it all works –

Say, for example, you are currently deferring \$100 per pay period with 25% of your deferral designated to the XYZ fund. The current balance of your XYZ fund is \$2,000. You decide to move (Exchange) 100% of your XYZ fund

into another fund. The Exchange moves the \$2,000 that you currently have on account in your XYZ fund and deposits the money, or actually buys shares, of the new fund you have selected. Now let’s not forget, that you still have 25% of your future deferrals designated to go to the XYZ fund. Even though you have moved 100% of the money already on account out of that fund, 25% of your future deferrals will continue to go into the XYZ fund unless you also do an Option Change. **Please remember, that an Exchange (movement of money already on account) does not automatically trigger an Option change (change in future deferrals).** This is a two-step process.

Exchanges and Option Changes may be done on the Web at www.kentuckydcp.com. You may also make changes using our SAVER voice-response line at **1-800-793-4401**, or you may call our office at 1-800-542-2667 and one of our Deferred Compensation Counselors will be glad to answer your questions and assist you in making changes to your account.

Fund Spotlight

For information only – NOT a recommendation for investment

VANGUARD MID-CAP STOCK INDEX (ADMIRAL SHARES)

Ticker Symbol – VIMAX
Morningstar Category – Mid-Cap Blend
Morningstar Rating – ★★★★★
Inception Date – April 1998
Manager: George U. Sauter

INVESTMENT OBJECTIVE:

Vanguard Mid-Cap Index Fund seeks long-term growth of capital.

TOP TEN HOLDINGS:

IDEC Pharmaceuticals	1.23%
Electronic Arts	0.96%
SunGard Data Systems	0.95%
M & T Bank	0.81%
Quest Diagnostics	0.81%
Marshall & Ilsley	0.78%
Affiliated Comp Svs A	0.75%
Gilead Sciences	0.74%
DST Systems	0.70%
SPX	0.65%

SECTOR WEIGHTINGS

	% of Stocks
Utilities	6.7%
Energy	6.6%
Financials	18.5%
Industrial Cyclicals	9.9%
Consumer Durables	3.5%
Consumer Staples	4.6%
Services	13.8%
Retail	4.0%
Health	14.5%
Technology	17.9%

BROWN CAPITAL MANAGEMENT SMALL COMPANY FUND

Ticker Symbol – BCSIX
Morningstar Category – Small Growth
Morningstar Rating – ★★★★★
Inception Date – July 1992
Manager: Management Team

INVESTMENT OBJECTIVE:

The investment objective of the Brown Capital Management, Inc. Small Company Fund is capital appreciation through investments in the common stock of companies with operating revenues of \$250 million or less at the time of initial investment – companies our investment professionals believe are at the early stages of their success. This fund is designed for investors looking for growth and willing to accept a more aggressive level of risk.

TOP TEN HOLDINGS:

Manugistics Group Inc	6.1%
Concord Communications Inc	3.3%
Catalina Marketing	3.3%
Albany Molecular Research	3.1%
Cognex Corp	2.7%
Gene Logic Inc	2.7%
Affymetrix Inc.	2.7%
Fair Issac & Co	2.7%
Aaipharma Inc	2.6%
Techne Corp	2.6%

SECTOR WEIGHTINGS

	% of Stocks
Utilities	0.0%
Energy	0.0%
Financials	0.5%
Industrial Cyclicals	1.2%
Consumer Durables	0.0%
Consumer Staples	0.6%
Services	23.8%
Retail	0.9%
Health	30.5%
Technology	42.5%

DREYFUS SMALL CAP STOCK INDEX FUND

Ticker Symbol – DISSX
Morningstar Category – Small Blend
Morningstar Rating – ★★★★★
Inception Date – June 1997
Manager: The Dreyfus Corporation

INVESTMENT OBJECTIVE:

The portfolio seeks to match the performance of the Standard & Poor's Small Cap 600 Index. To pursue this goal, it will invest in a representative sample of stocks included in the S&P Small Cap 600 index, and in futures whose performance is tied to the index, rather than attempt to replicate the index.

TOP TEN HOLDINGS:

Cephalon	1.00%
Advance Paradigm	0.72%
Commerce Bancorp NJ	0.67%
DR Horton	0.66%
Varian Medical System	0.63%
Whole Foods Market	0.62%
Copart	0.57%
XTO Energy	0.57%
Michaels Stores	0.55%
Medicis Pharma Cl A	0.52%

SECTOR WEIGHTINGS

	% of Stocks
Utilities	3.4%
Energy	4.3%
Financials	10.9%
Industrial Cyclicals	20.4%
Consumer Durables	4.4%
Consumer Staples	3.2%
Services	15.1%
Retail	8.6%
Health	12.0%
Technology	17.7%

"Fund Spotlight" is continued on the next page.

AMERICAN CENTURY SMALL CAP VALUE (INVESTOR CLASS)

Ticker Symbol – ASVIX
 Morningstar Category – Small Value
 Rating – ★★★★★
 Inception Date – July 1998
 Manager: Management Team

INVESTMENT OBJECTIVE:

The fund seeks long-term capital growth; income is a secondary objective. It normally invests at least 65% of assets in equity securities of U.S. companies with small market capitalizations.

TOP TEN HOLDINGS:

Wisconsin Energy	2.13%
Sensient Technology	1.99%
PMI Group	1.93%
The Phoenix Companies	1.83%
Insituform Tech A	1.77%
Kellwood	1.74%
Jack In The Box	1.73%
Sybron Dental Technology	1.63%
Owens & Minor	1.62%
Flowserve	1.54%

SECTOR WEIGHTINGS

	% of Stocks
Utilities	7.5%
Energy	6.0%
Financials	13.7%
Industrial Cyclicals	20.1%
Consumer Durables	4.3%
Consumer Staples	7.0%
Services	12.1%
Retail	7.3%
Health	10.6%
Technology	11.4%

TEMPLETON FOREIGN FUND

Ticker Symbol – TEMFX
 Category – Global Value
 Morningstar Rating – ★★★★★
 Inception Date – October 1982
 Management Team: Jeffrey A Everett, CFA,
 Dale Winner, CFA, Murdo Murchison,
 CFA

INVESTMENT OBJECTIVE:

The fund seeks long-term capital growth. The fund invests at least 80% of its net assets in equity securities of companies outside the United States.

TOP TEN HOLDINGS:

Cheung Kong Holdings Ltd.	3.2%
Volkswagen AG	2.0%
HSBC Holdings PLC	2.0%
SK Telecom Company Ltd.	2.0%
UPM-Kymmene Corp.	1.8%
Iberdrola SA	1.7%
E. On AG	1.7%
Telefonos de Mexico SA (Telemax)	1.7%
DSM NV	1.6%
Koninklijke Philips Electronics NV	1.6%

GEOGRAPHIC BREAKDOWN

Europe	42.3%
Asia	30.5%
Latin America/Caribbean	6.9%
North America	5.6%
Australia/New Zealand	3.3%
Fixed Income	2.0%
Cash	9.4%

Changes at the Top

Board Chairman resigns after years of outstanding service— New Chairman elected.



Mr. Ed Ross, Board Chairman

After many years of outstanding service and leadership, Ronald J. Murphy resigned from the Authority's Board of Trustees effective February 13, 2002.

Mr. Murphy had been a Board Member since October 1994. He was elected Chairman in February 1996 and served in that position until his resignation. His energy, experience, and leadership will be greatly missed.

Filling the Chair position will be Mr. Ed Ross who was elected by the Board Members at the February 13, 2002 meeting. Mr. Ross is the State Controller and has been serving as Vice Chairman of the Board, where his intricate knowledge of Kentucky State Government and financial matters has proven invaluable. We look forward to many exciting and productive years under the leadership of Mr. Ross.